COUNSEL

COUNSEL CORPORATION 1999 ANNUAL REPORT

impower

proscape technologies

ibt technologies

core communications

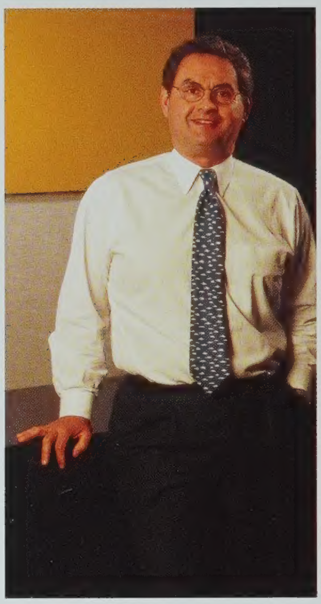
faro pharmaceuticals

CORPORATE PROFILE Focused. Strategic. Committed to realizing value for shareholders. Counsel Corporation is poised to benefit from new opportunities by utilizing its core strengths – its dedicated team of business specialists, its financial resources, its flexibility and the speed with which it can embrace and enhance new ideas, new concepts and new business enterprises in a changing economic environment.

These strengths, and the drive to pursue promising new business opportunities, have allowed Counsel to successfully identify and invest financial and management resources in companies with enabling technologies – namely technologies that are changing and enhancing the way business is being conducted. The application of these technologies enables businesses to operate more efficiently by increasing production, lowering costs and shortening time-to-market.

With a foothold in both Canada and the United States, Counsel is unique in being able to take advantage of such opportunities throughout North America.

While Counsel views the enabling technologies that have arisen from the new economy as a critical opportunity, it is committed to enhancing and realizing value from its activities in the emerging pharmaceutical industry and will remain active in achieving this goal.



Allan Silber

Chairman & Chief Executive Officer

A FOCUSED STRATEGY FOR INVESTMENT AND GROWTH

Last November, the Board of Directors and the management of Counsel approved a focused business strategy for the Corporation, one which would capitalize on our strengths and, at the same time, allow us to explore exciting areas for investment and growth.

In pursuing this strategy, we decided to focus our investment activities on companies that possess enabling technologies – technologies that provide a competitive advantage for their end users and have the potential to contribute to the transformation of the business environment. These technologies are having, or will have, a significant impact on many commercial activities.

We determined that target companies in our strategic portfolio would involve U.S.-based as well as Canadian enterprises, and that our initial investment stake would be at least 20%. Each company would have a proven business model and an experienced management team. And each would provide opportunities for Counsel to add further value through our proven financial and management expertise.

In that respect, we are working closely with the management teams at these companies to ensure that they have both the financial and human resources they need to fully exploit the potential of their technologies and thereby achieve their strategic goals and objectives. Furthermore, the solid management expertise we

have developed and honed over the years, combined with our flexibility and agility in changing business environments, represent a complementary skill set that will increase the degree and speed of their success.

BUILDING OUR PORTFOLIO

We began to build our portfolio of companies by taking a 33% stake in Impower, Inc. of Princeton, New Jersey, a leading Internet direct marketer whose management team has more than 20 years of direct marketing experience.

Impower is a good example of the type of company we are seeking. It is positioned to become a leader in the online direct marketing industry, which is projected to grow from revenues of $200 million in 1998 to more than $6.3 billion in 2002. Impower's technology is changing the face of Internet marketing through its pioneering approach to pricing on a cost-per-action (CPA) basis, rather than the more traditional cost-per-thousand (CPM) model – and by working with its clients to harness the power of the Internet and cost effectively acquire and cultivate targeted customers online and transform them into valuable lifetime relationships.

Since our investment, Impower has hired more than 40 employees, added several major new clients and is on track to increase revenues from $4.3 million in 1999 to between $15 and $20 million in 2000.

After our initial investment in Impower, others soon followed. In addition to Impower, we now have in our strategic portfolio:

- a 40% stake in Proscape Technologies, Inc. of Fort Washington, Pennsylvania, whose premier sales and marketing intelligence and consultative selling solutions enable better and more profitable business decisions for even the largest companies;
- a 26% stake in IBT Technologies, Inc., of Austin, Texas, a company that has the potential to revolutionize teaching, training and learning over the Internet through its authoring and assessment software, a sophisticated, template-based development tool for asynchronous Web-based training;
- a 39% stake in Core Communications Corporation, of Dulles, Virginia, whose technology makes it easy and economical for individuals and groups to tap into the Internet from public meeting places such as convention and conference centres. At each client property, Core installs a shared local area network that is linked to its national network service to provide high-speed Internet and telecommunications access.

AMALGAMATION OF FARO PHARMACEUTICALS AND SAGE BIOPHARMA

During the past year, we restructured the FARO and Sage lines of business under the FARO Pharmaceuticals umbrella, which along with its new organizational structure improves the company's fundamental competitiveness. This restructuring also allowed FARO to attract new senior management, as well as expand some key functions in the combined, larger organization.

With the steadily improving platform of FARO, we have hired several outstanding executives to the company, including Senior Vice President of Field Sales, Bill Carkhuff, formerly of Sandoz and Novartis, and Senior Vice President, Marketing, New Business Development and Strategic Planning, Donald Mozes, formerly of V.I. Technologies, Sandoz and Revlon Healthcare.

REORGANIZED TO MAXIMIZE EFFECTIVENESS

Counsel has always been known for its management excellence and we have become even stronger through some important organizational changes and additions aimed at ensuring the success of our new investment focus. Morris Perlis is filling the new position of Managing Director, while continuing to serve as President. He now oversees our investments in Impower, Inc. and Proscape Technologies, as well as managing our health care assets. Sam Shimer today has the role of Managing Director, Mergers and Acquisitions. He works closely with other members of senior management to identify and assess both strategic and venture investments. Gary Wasserson has joined our senior management team as Chief Executive Officer of Counsel Communications LLC. With his expertise, we are poised to take advantage of the significant opportunities in the telecommunications industry.

We are also pleased to welcome new Managing Director Douglas Knight to the Counsel management team. He is responsible for IBT and Core Communications as well as our activities in Canada. Doug previously served as publisher of the *Financial Post* and *Toronto Sun* newspapers.

MOVING FORWARD

As you may be aware, 1999 was a difficult year for Counsel Corporation. We did, however, realize significant value on the sale of our pharmacy services subsidiary, Stadtlander Drug Company. The proceeds of that sale allowed us to eliminate our bank debt, buy back 2,188,500 of our common shares and pay a special dividend of C$1.50 per share, as well as provide us with additional resources to pursue our current business strategy.

Nevertheless, our common share price does not reflect the current, underlying value of our resources and assets. A factor in the underperformance of our stock is our ongoing dispute with Bergen Brunswig Corporation. Last January, Counsel sold Stadtlander to Bergen Brunswig. After the successful completion of the transaction, Bergen Brunswig repeatedly tried to reopen negotiations and, subsequently, filed suit. We believe their suit is entirely without merit and that Counsel acted in a completely ethical and responsible manner throughout the transaction. Be assured that we will, as always, act in good faith, serving the best interests of all our stakeholders.

As we move forward with our new focus, it is important to acknowledge the contributions of our Board of Directors, our experienced management team and our knowledgeable employees, who have never wavered from their primary focus of increasing shareholder value. For years, Counsel has proven that dedicated people make a difference; 1999 was no exception. Thank you to all our stakeholders for your continued support.

I want to conclude by noting that business today is facing a number of uncertainties associated with the rapid advance of new technology, the high speed of change, increased competition from all directions and highly volatile markets. Our unique blend of strengths, our focused strategy and the nature of our investments allows us to thrive in this environment to develop long term, sustainable value for the Corporation, which, in turn, will yield value for our shareholders.

Allan Silber

Allan Silber

Chairman & Chief Executive Officer

Counsel Corporation's focus on enabling, technology-based enterprises in both the United States and Canada, combined with its strategic, operational and financial expertise, positions it to add value beyond its invested capital, making it an ideal partner for entrepreneurs and business leaders.

Counsel has sharpened its investment focus to target companies that offer exceptional growth potential by defining the future of e-business, e-commerce and communications. The Corporation has also honed its competitive edge in the emerging pharmaceutical sector by consolidating its pharma subsidiaries under FARO Pharmaceuticals Inc. Counsel will actively build shareholder value by applying its considerable in-house strategic, financial and marketing expertise to its portfolio and by seeking further acquisitions that meet its criteria for strategic investment.

portfolio at a glance

Given the excellent opportunities that are emerging in today's dynamic markets, and given the nature of Counsel Corporation and its strengths and new business focus, we have also taken advantage of several venture investments in which we play a supportive role only, with minimal commitment in terms of time and resources. These include: Delano Technology Corporation, based in Richmond Hill, Ontario; ci4net.com, Inc., a European economic network or *Econet*; and Hip Interactive Corp. of Toronto, Ontario.

impower

Impower, Inc., a leader in transaction-based Internet direct marketing, develops and mines proprietary, licensed and managed databases by applying proven direct response methods. It produces and delivers targeted Internet-based direct marketing campaigns and promotions, allowing advertisers to acquire customers cost effectively.

The company's complete line of integrated products and services permits Internet publishers, marketers and e-tailers to deliver advertisements, promotional offers and highly targeted e-mail to opt-in consumers through marketing to third party lists, client lists and proprietary lists, as well as through access to 30 million opt-in e-mail users.

Using a wide variety of Web and e-mail programs, many of which were developed by the company, Impower also helps clients conduct e-commerce and e-communications, including strategic development, research and analysis, marketing plans, test executions, results analyses and roll-out strategies.

Impower is a pioneer in applying the cost-per-action paradigm to Internet advertising, whereby marketers only pay if a customer actually responds to an advertisement, as opposed to the existing model in which advertisers pay for every "eyeball," whether or not a response is generated. This paradigm was developed out of the company's twenty-five years of successful experience in direct marketing.

The company's clients include many of the world's most successful online and offline direct marketers: American Express, Dell, Time-Warner, Prentice Hall, Harvard Business School, Pitney Bowes, Dow Jones, Match Logic and many more.

Proscape Technologies, Inc. is a leading provider of innovative, fact-based sales and marketing information software systems to Fortune 1000 companies. The company's products operate over the Internet, over corporate-based Intranets and over client-server networks.

Proscape's premier software system is an integrated marketing intelligence and consultative selling solution that enables companies to achieve better and more profitable business decisions. Through the integration of multiple data sources, Proscape provides unique competitive insights into customers' specific businesses. Proscape enables consistent, best practices management with objective, automated feedback and analysis.

proscape

Proscape technology allows sales teams to:

- reduce trade spending while growing volumes
- improve distribution and shelf positions
- deliver high levels of profit, customer take-away and volumes shipped
- spearhead account alliances
- handle an increasingly broad and growing product assortment with ease
- upgrade each individual team member, from sales representative to business manager.

Customers include: Adecco Inc., Anheuser-Busch Inc., Adelphia Business Solutions, The Keebler Company, The Pillsbury Company and Wyeth-Ayerst Laboratories among many others.

IBT Technologies, Inc. is an e-learning company that enables corporations, traditional training organizations and educational institutions to use the Internet to establish an effective, efficient and economical learning experience.

IBT provides e-learning solutions with a "one company – one solution" approach to Web-based training under an Application Service Provider (ASP) model. The ASP model offers software and hosting services to clients that require only a Web browser to access. ASPs host all the software on their own servers and rent access to their clients, which allows companies to implement e-learning solutions without making incremental capital investments in hardware or software.

The company provides off-the-shelf material through its Knowledge Gateways and e-learning solutions for companies through its Rapid Deployment System.

ibt

The Knowledge Gateways distribute non-proprietary e-learning content sold to corporate clients as well as individuals. The Rapid Deployment System provides corporations with the authoring tools to migrate content to the Internet in an easy, cost effective and rapid manner, and deploy and manage that content using the ASP model.

In addition, IBT supports each application with online individual and group assessment, course management and system tracking tools and 24x7 technical support.

IBT provides all the software required for both virtual campus and e-commerce hosting. Clients are charged a flat-rate usage charge per student at the time the course is taken. Students receive 30 days of unlimited access for each course module at no additional charge. For e-commerce sites, IBT handles the collection, billing and e-commerce transactions.

Core Communications Corporation's technology makes high-speed Internet and data communications in meeting, conference and convention facilities easily accessible, affordable and manageable.

The company operates a national network service that eliminates the technical and logistical burden of providing and billing temporary Internet connections. Core installs a shared local area network at each contracted facility, such as a hotel, at its own cost. It then sells services directly to guests and shares the resulting revenues with the facility operator. Core's Internet access solution works equally well at small seminar and meeting spaces in city centre hotels and at large convention and trade show facilities.

core

Core relieves its customers of the costs, risks and technical problems associated with Internet service and lets them focus on their businesses. It is the only network platform designed exclusively for the meeting industry with personnel who are proven pioneers and industry leaders in data network services. As a Web-based national network, Core adapts to changes in technology and customer demands more quickly and efficiently than any competing technology or system.

Core's customers include, among others, the Hard Rock Hotel and Conference Center in Las Vegas, the Richmond (Virginia) Convention Center and the Esquire Imax Theater in Sacramento.

FARO Pharmaceuticals, Inc. is the new emerging pharmaceutical company created by Counsel through the merger of FARO Pharmaceuticals and Sage BioPharma. Both of these businesses offer considerable potential in their respective segments of the pharmaceutical market. By bringing them together, both units will achieve a better strategic balance and realize faster growth and stronger profits.

FARO markets IMURAN®, an immunosuppressive agent approved to prevent transplant rejection and to treat moderate to severe rheumatoid arthritis, and is also developing IMURAN® for the treatment of Crohn's disease. FARO's portfolio also includes ZYLOPRIM®, approved for gout and as an adjunctive treatment for patients undergoing certain types of chemotherapy, and TRANDATE® for the treatment of hypertension.

faro

The unit previously known as Sage BioPharma markets a broad range of products used in the treatment of infertility, including medical devices, diagnostics and instrumentation. Through an exclusive licensing agreement with the Swiss company Institut Biochimique SA, Sage is planning to introduce a proprietary line of fertility hormone drugs in North America in mid 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

CONSOLIDATED FINANCIAL STATEMENTS

SIX-YEAR FINANCIAL SUMMARY

(All dollar amounts are in US dollars unless otherwise indicated.)

Counsel Corporation ("Counsel", "the Company") is incorporated under the Business Corporations Act of Ontario and during 1999 it was engaged primarily in health care and e-Commerce-related businesses.

During 1999, Counsel's health care operations were conducted through 76%-owned (90%-owned at December 31, 1998) FARO Pharmaceuticals, Inc. ("FARO") which was acquired in August 1998, and 61%-owned Sage BioPharma, Inc. ("Sage") which was acquired in July 1998, both private companies, which were merged on December 31, 1999. The merged company will continue as FARO Pharmaceuticals, Inc. with Counsel owning 78.3% of the combined company. The combined company acquires, markets and distributes pharmaceutical products and develops and markets infertility products. In addition, Counsel carries on certain health care operations directly for its own account through wholly owned subsidiaries that have ownership or leasehold interests in 13 nursing homes with 1,928 beds and five retirement centres with 455 units, in Canada and the United States. Counsel also held a 26.3% interest in American HomePatient Inc. ("AHOM"), a public company that provides home health care services and products from over 300 centres in 38 states. In the fourth quarter of 1998, Counsel adopted a plan to dispose of its home health care business through the disposition of its AHOM shares and, consequently, AHOM has been classified as a discontinued operation for financial statement purposes.

In October 1999, Counsel entered the e-Commerce sector through the acquisition of a 25.2% interest in Impower, Inc. ("Impower"), with a commitment to acquire an additional 8.4%. Impower, a private company, provides transaction-based Internet direct marketing and electronic database management products and services. Also in 1999, Counsel acquired stakes in Delano Technology Corporation ("Delano", NASDAQ:DTEC), a provider of interaction-based e-business communication solutions that went public in February 2000, and HIP Interactive Corp. ("HIP", CDN:HIPI), a fully integrated name brand e-Commerce business selling consumer PC software and video games. So far in 2000, Counsel has continued to expand in the e-Commerce sector with the acquisition of: a 28.5% interest in Proscape Technologies, Inc. ("Proscape"), with the commitment to acquire an additional 13.5% if certain conditions are met; a 26% interest in IBT Technologies, Inc. ("IBT"); a 22.5% interest in Core Communications Corporation ("Core"), with the commitment to acquire an additional 10.1% and warrants for a further 6.5%; and a 1.1% investment in ci4net.com, Inc. ("Ci4net", OTCBB:CIFN). Proscape, a private company, provides business-to-business fact-based sales and marketing information software systems to middle market and Fortune 1000 companies. IBT, a private company, delivers media-rich course content over the Internet for business training and post-secondary educational applications. Core, a private company, provides high-speed Internet access solutions and other communication services to trade shows, conventions, seminars and conferences by installing shared local networks. Ci4net is a European economic network that owns 50% or more of 30 Internet companies involved in the business-to-business, business-to-consumer and infrastructure sectors primarily in the United Kingdom, with additional penetration in Europe, Australia and the United States.

The following chart shows, in simplified form, the corporate relationships of Counsel and its principal businesses as at December 31, 1999:

Owns and operates retirement centres and nursing homes

(pre-IPO) – Provides interaction-based e-business communication solutions

– Web-based vendor of consumer PC software and video games

100% **COUNSEL CORPORATION (US)**

– Acquires, develops, markets and distributes pharmaceutical products

– Owns nursing homes

– Provides transaction-based Internet direct marketing products and services

– 26.3% of American HomePatient, Inc.

There were several major corporate developments in 1999.

In January, the Company completed the sale of its wholly owned subsidiary, Stadtlander Drug Company, Inc. ("Stadtlander"), to Bergen Brunswig Corporation ("Bergen"). The net sale proceeds to the Company, before costs of disposition, were approximately $334 million comprised of $171 million in cash and the balance in 5.7 million shares of Bergen with a then current market value of $28.625 per share. Subsequent to the sale, a dispute arose between Counsel and Bergen with respect to certain post-closing adjustments to the purchase price. When efforts to resolve the dispute were unsuccessful, the parties commenced the arbitration process established by the purchase agreement. As the arbitration process was being initiated, Bergen sued Counsel, seeking damages for misrepresentation with respect to the Stadtlander sale. The Company believes that the suit is completely without merit and has filed a motion to stay the suit and compel arbitration of the dispute. The Company expects its motion will be heard in April 2000.

Part of the agreement to sell Stadtlander to Bergen required the Company to grant Bergen the right to vote the Company's shares of PharMerica, Inc. ("PharMerica") on issues relating to any business combinations involving PharMerica, until the end of 2001. The Company also agreed not to sell or distribute its shares of PharMerica before the end of 1999 without Bergen's prior consent and granted Bergen a right of first refusal with respect to bona fide third party offers for the shares during that period. In April 1999, Bergen merged with PharMerica on the basis of .275 of a Bergen share for every PharMerica share, resulting in the Company receiving 2.1 million shares of Bergen with a then current market value of $20.72 per share.

At December 31, 1999, the 7.8 million shares of Bergen received from the Stadtlander sale and the PharMerica merger were classified as short term investments and written down to their year end market value of $8.31 per share. This resulted in an after tax loss of $90.9 million.

Effective November 6, 1998, the Company adopted a plan to dispose of its home health care business through the disposition of its interest in AHOM. Accordingly, the Company adjusted the carrying value of its investment in AHOM to reflect both the estimated future operating losses and estimated net realizable value of its investment. During 1999 AHOM's market value continued to decline and management determined that a sale of the Company's interest in AHOM did not offer an optimal return to shareholders. Consequently, in April 2000, a dividend in kind of the AHOM shares was declared.

In the fourth quarter of 1999, the Company began to broaden its investment focus to include Internet and other technology-based companies. In October it agreed to acquire a 33% interest in Impower for $15 million. In July the Company acquired the current equivalent of 844,500 shares of Delano for $2.0 million and in December it acquired 1,500,000 shares of HIP for $1.0 million.

Effective December 31, 1999, FARO acquired all of the shares of Sage.

The following table illustrates the consolidated financial performance of Counsel for the year ended December 31, 1999 and the comparative results for the year earlier period:

(In 000s)	1999	1998
Revenues		
Pharmaceutical products	$ 36,632	$ 3,378
e-Commerce	233	–
Clinical laboratory	–	9,142
Long term care	31,275	31,112
Realization of value in operating businesses	1,758	2,003
Interest and other income	5,803	7,908
	$ 75,701	$ 53,543
Earnings		
Pharmaceutical products	$ 15,614	$ 1,307
e-Commerce	40	–
Clinical laboratory	–	466
Long term care	681	1,212
Realization of value in operating businesses	1,929	2,232
Interest and other income	5,803	7,908
	24,067	13,125
Less:		
Writedown of investments	148,456	–
Corporate expenses	3,893	3,008
Interest	8,962	3,042
Amortization	7,204	1,372
Income taxes (recovery)	(54,001)	(871)
Minority interest	(1,079)	(111)
Earnings (loss) from continuing operations	(89,368)	6,685
Earnings from discontinued pharmacy services operations after tax	150,594	3,793
Loss from discontinued home health care operations after tax	(14,529)	(33,102)
Net earnings (loss)	$ 46,697	$ (22,624)

Counsel's pharmaceutical products revenues are derived from FARO and Sage. FARO had revenues of $33.5 million for 1999 compared with $3.1 million for the period from November 16, 1998, when it was first consolidated with Counsel, to December 31, 1998. FARO's earnings before interest, taxes, depreciation and amortization ("EBITDA") were $18.0 million in 1999 compared with $1.4 million in 1998. Almost all of these revenues and earnings relate to the products acquired effective December 15, 1998, the date of acquisition of the U.S. rights to three prescription pharmaceutical products (the "Glaxo Products") from Glaxo Wellcome Inc. ("Glaxo").

Sage had revenues of $3.1 million for 1999 compared with $0.3 million for the period from June 30, 1998, when it was first consolidated with Counsel, to December 31, 1998. Sage had a loss before interest, taxes, amortization and depreciation of $2.4 million in 1999 compared with a loss of $0.1 million in 1998. These losses reflect the fact that Sage's lead product line is currently in the clinical trial stage.

FARO acquires, markets and distributes pharmaceutical products. FARO currently markets and distributes three pharmaceutical products through a sales force of approximately 30 representatives. FARO seeks to acquire rights from large pharmaceutical companies to brand-name pharmaceutical products that fall below the sales volume threshold necessary to be attractive to those companies. Its strategy is to acquire the rights to such "below-threshold" products in specific disease states and market those products in a cost-efficient manner, expanding their use through re-emphasized sales and marketing efforts and clinical studies that differentiate the products from competitors. FARO focuses on the acquisition of rights to products that have received U.S. Federal Food and Drug Administration ("FDA") approval or are in a late stage of such approval. In addition to acquiring rights to certain products, it may also seek to enter into joint venture, co-promotion and co-marketing agreements with major pharmaceutical companies.

FARO was incorporated in January 1994. In the fall of 1998, Counsel purchased $5.0 million in FARO preferred stock. Counsel also loaned $200,000 to FARO to assist it in meeting its operating requirements, and this loan was converted into shares of common stock.

Following the completion of the initial Counsel investment, Counsel, with the assistance of FARO senior management, began negotiations to acquire the rights to Imuran®, Zyloprim® and Trandate®, three products owned by Glaxo (which included Trandate in injectable form beginning in the fourth quarter of 1999), with 1998 net sales of approximately $37.9 million, $4.5 million and $26.0 million (for Trandate tablet), respectively. Imuran® is an immunosuppressive agent approved to prevent transplant rejection and to treat moderate to severe rheumatoid arthritis. FARO is also developing Imuran® in the area of inflammatory bowel disease, including Crohn's disease, for which it has submitted an SNDA to the FDA. Zyloprim® is approved for gout and as an adjunctive treatment for patients undergoing certain types of chemotherapy. Trandate® is approved for hypertension in two forms, tablets and injectable.

On December 15, 1998, with Counsel's financial assistance, including the sale to Counsel of $10 million of common stock, FARO acquired all rights to the Glaxo Products in the United States and Puerto Rico for $105 million. The rights acquired with respect to the Glaxo Products included all trademarks, copyrights and regulatory filings. The $105 million purchase price paid to Glaxo consisted of $65 million in cash and a $40 million seller note issued to Glaxo by Counsel, which was secured by a $50 million (subsequently reduced to $40 million) pledge of Counsel assets. FARO funded the purchase price by borrowing $104 million from Counsel and using $1 million from Counsel's November 1998 purchase of preferred stock. The $104 million in loans from Counsel to FARO consist of a $64 million ($56 million at December 31, 1999) bridge loan and a $40 million senior subordinated note. The senior subordinated note was issued by FARO to Counsel in exchange for Counsel's issuance of a $40 million note directly to Glaxo.

Prior to its acquisition by Counsel, FARO had a history of significant losses and modest historical revenues. FARO had net revenues for the nine months ended September 30, 1998 of approximately $0.3 million. Since the Glaxo acquisition, completed on December 15, 1998, FARO's revenues have increased dramatically as a result of the impact of the acquired products. Glaxo's net sales for the Glaxo Products in 1996, 1997 and 1998 were $97.0, $71.8 and $68.4 million, respectively. Revenues from the Glaxo Products have enabled FARO to operate profitably; however, revenues in 1999 were below expectations due, primarily, to the effects of an unanticipated buildup of inventories of the Glaxo Products in the wholesaler network immediately prior to their acquisition at the end of 1998. The drawdown of these inventories to more normal levels in 1999 negatively impacted FARO's sales. FARO's financial performance was also adversely affected by factors beyond its control, including discounting by generic competitors and the introduction of new generic competition.

Sage was formed in 1998 to source and bring to market products to treat hormone-dependent disorders in male and female health, with particular emphasis on reproductive medicine. Sage's objective in this market is to become the pre-eminent provider of a broad range of infertility products targeted to the needs of both practitioners and patients. Sage currently markets a broad range of products used in the treatment of infertility, including diagnostics, advanced assisted reproductive technique culture media, instruments and medical devices. Sage's product line, marketing and distribution capability were enhanced in March 1999 by the acquisition of substantially all of the assets of Fertility Technologies, Inc.

In July 1998, Sage entered into an exclusive licensing agreement with Institut Biochimique SA ("IBSA"), a Swiss company, to gain approval for and market a proprietary line of fertility hormone drugs for use in the US and Canada. This line includes follicle stimulating hormone, human menopausal gonadotropin and human chorionic gonadotropin. These novel drugs have been approved and are currently being marketed by IBSA in Europe. Sage has initiated two Phase III clinical trials for the IBSA drugs in North America, with a third study planned for later in 2000. Sage is currently targeting the first half of 2001 for the introduction of the first of these drugs. Until the IBSA drugs are approved for distribution in North America, Sage's revenues are not expected to form a material part of Counsel's operations although steady growth is anticipated from the current product line as well as strategic acquisitions of complementary products. While the IBSA drugs are in the clinical trials, Sage's earnings will be negatively impacted by the costs related to that process.

Counsel's e-Commerce revenues are derived from Impower. The $233,000 of revenues recorded by Counsel represents its 25.2% share of Impower's revenues for the months of November and December 1999. Impower's EBITDA for those two months was $174,000, of which Counsel's share was $44,000.

Impower is a leading Internet direct marketing company ("e-marketer"). With over 20 years of direct marketing experience, including five years in Internet direct marketing, Impower's management team works with clients to cultivate targeted customers online, at an appropriate customer acquisition cost, and transform such consumers into profitable lifetime relationships. Impower is a marketing company that employs technology across the web to solve marketing problems for its clients. Impower understands what offers to present to whom and when.

Founded in 1995, Impower was a pioneer in embracing the Internet for direct marketing by offering a full range of integrated products and services to enable Internet publishers, marketers and e-tailers to deliver advertisements, promotional offers and highly targeted e-mail to "opt-in" consumers. Impower markets to third party e-mail lists, client e-mail lists and proprietary e-mail lists and, hence, has access to the entire universe of over 30 million opt-in e-mail users. In addition, Impower is building a highly scalable virtual marketplace that matches Internet marketers seeking to acquire new customers with web sites seeking incremental advertising revenue on a pay-for-performance or cost-per-action ("CPA") basis.

Most e-marketers are media-centric or technology-centric and focus on selling inventory on their ad networks and/or e-mail services against their owned lists. Unique in the industry, Impower is marketer focused, offering comprehensive e-marketing solutions to leading e-tailers, such as barnesandnoble.com, Buy.com, Match Logic, OnHealth, Garden.com, Mondera.com, iBeauty.com and Social.net as well as many leading traditional marketers, such as American Express, US News & World Report, Dell Computer, Bell Atlantic, Time Warner and Pitney Bowes.

The biggest issue facing Internet publishers, marketers and e-tailers today is attracting and retaining customers on a cost-effective basis (as opposed to merely "eyeballs"). Forrester Research estimates online direct marketing expenditures to grow from $200 million in 1998 to $6.3 billion in 2002. BancBoston Robertson Stephens estimates Internet direct marketing expenditures in 2002 will be more than $10 billion. The e-marketing industry is comprised of companies that can be broadly segmented into: (a) Internet advertising networks; (b) e-mail marketers; and (c) incentive-based data aggregators (i.e., sites that offer incentives for membership to accumulate opt-in names and information and then sell them through third-party e-marketers). Impower believes it is the only e-marketer offering products and services in all three segments.

Impower's highly differentiated strategy is four fold: (i) offer the broadest array of products and services to leading Internet publishers, marketers and e-tailers to help them fulfill all of their online advertising and direct marketing needs through one comprehensive strategy; (ii) offer highly targeted solutions that improve response rates and increase the lifetime value of a customer; (iii) maximize a client's return on marketing dollars, often by applying a pay-for-performance model based on the client's allowable customer acquisition cost; and (iv) build and manage proprietary electronic databases with substantial data capture, including transactional data and consumer participation (i.e., strictly on an opt-in basis).

To fulfill its mission of being the number one choice for Internet publishers, marketers and e-tailers, Impower is offering and further developing the broadest array of products and services based on its expertise in data-driven direct marketing. Impower develops loyal customer relationships by: (i) educating clients about Internet direct marketing; (ii) designing and developing online marketing strategies; (iii) developing and implementing methods of migrating their existing customers to the web (i.e., opt-in management); and (iv) managing clients' existing customer databases.

To prospect and retain customers, Impower designs, develops and implements sophisticated online advertising and direct marketing campaigns integrating a variety of products and services. Moreover, to ensure its customers have access to all the available solutions, Impower will recommend both proprietary and outside products and services, including data/lists, media and technology offered by third parties. Impower markets to the entire universe of over 30 million opt-in e-mail users and, on behalf of its clients, is a substantial customer of several of the publicly traded e-marketing companies, including MyPoints.com, YesMail.com and Net Creations. As such, Impower is a driving force in the Internet direct marketing industry.

Impower combines consumer participation with powerful demographic, psychographic, behavioural and transactional data to achieve the most effective consumer targeting. Impower creates personalized content targeted to consumers based on their purchase history, profile, personal information and other demographic attributes attained from the consumers. Such targeting results in improved customer response and communications, thus improving returns on marketing expenditures. Moreover, Internet publishers, marketers and e-tailers benefit from Impower's ability to leverage expertise in direct marketing, data mining and analysis and best-practice knowledge into more effective direct marketing campaigns. In addition, it is a pioneer in applying a CPA pricing paradigm to Internet advertising, whereby a marketer pays its allowable customer acquisition cost only when a customer takes a specific action. Impower has delivered in excess of 100 million e-mails and 2 billion advertising promotional impressions on behalf of over 75 clients. Impower's direct marketing campaigns have reduced customer acquisition cost by over 90% for many of its clients.

Counsel entered the clinical laboratory business in May 1996 with the acquisition of a laboratory and EKG business in Massachusetts by its newly formed 50.1%-owned subsidiary, U.S. Laboratory Corp.("US Lab"). On November 3, 1998, Counsel sold its interest in US Lab for cash consideration of $2.0 million, resulting in a gain of $1.3 million.

Effective April 30, 1994, Counsel disposed of its long term care operations through the sale of Advocat, Inc., a company created to hold those interests; however, Counsel retained ownership or leasehold interests in 20 nursing homes and retirement centres, two of which were sold to third parties in 1995. In 1998 and 1999, long term care revenues only include fees paid by residents of seven nursing homes leased by the Company, all of which are managed by Advocat, as well as rent paid by Advocat for six nursing homes and five retirement centres leased from the Company.

After deducting interest on the mortgages relating to the long term care facilities and amortization of the facilities, long term care operations generated a loss, before allocation of head office overheads, of $0.1 million in 1999 compared to pre-tax earnings of $0.4 million in 1998. The earnings decline in 1999 was entirely due to the cessation of amortization of the deferred gain related to the five retirement centres leased to Advocat. The gain was being amortized over the initial term of the leases, which expired in May 1999. During 1995 and early 1996, the Company was successful in renewing the mortgages on the five retirement centres leased to Advocat, at significantly lower rates than the maturing mortgages, resulting in an annualized saving of approximately $0.4 million in interest costs. With respect to the amortization expense, the Company believes that the net realizable value of the 11 facilities leased to Advocat is at least equal to their net book value at April 30, 1994 and, consequently, a sale of the facilities would result in the recapture of the amortization expensed after that date. Advocat has options to purchase five of these facilities at prices higher than their net book value and three at fair market value at the end of their lease terms. In addition, the Company has the right to require the mortgagee of the other three facilities leased by Advocat to acquire them, when the mortgage expires, at an amount in excess of their current net book value.

As a result of the Company's stated policy to realize on the value created in its operating businesses at the appropriate time, in 1995 the Company reclassified such realizations from "unusual items" to operating income. While the timing of such realizations is not easily predicted, the Company expects that realizations will occur on a consistent basis.

In 1999, realization of value in operating businesses was comprised of a $0.4 million dilution gain related to share issuances by FARO and $1.5 million of recoveries of previously expensed mortgage and real estate reserves.

Interest and other income decreased from 1998 to 1999 primarily due to a non-recurring $5.9 million fee earned in 1998 from PharMerica for providing investment banking services and the settlement of related litigation in connection with an acquisition completed by PharMerica. This more than offset significant increases in interest earned on cash balances and the Bergen dividends received in 1999.

The writedown of investments in 1999 had two major components. Approximately $142 million related to reflecting Counsel's holding of Bergen shares at their December 31, 1999 market value and approximately $4 million related to expensing payments required by the Sage agreement with IBSA.

The main reasons for the increase in corporate expenses in 1999 from 1998 was the expansion of the New York office of Counsel's wholly owned subsidiary, Counsel Corporation (US), and the cost of relocating FARO's offices from Houston, Texas to Bedminster, New Jersey.

Interest expense relates primarily to the mortgages on the Company's retirement centres and nursing homes, the $40 million Glaxo note and the Company's convertible debentures that were issued October 31, 1996. Interest expense increased in 1999 over 1998 due to the Glaxo note and the fact that a portion of the expense related to the convertible debentures had, in 1998, been allocated to discontinued operations.

Amortization expense increased by $5.8 million in 1999 over 1998. This increase was almost entirely due to the amortization of the acquisition costs of the Glaxo Products.

In the fourth quarter of 1998, due to, first, the agreement to sell Counsel's 100% interest in Stadtlander which closed in January 1999, secondly, the pending merger of PharMerica with Bergen, and thirdly, management's decision that its 27% interest in AHOM was no longer a core holding and that it should therefore be divested by the end of 1999, these investments were accounted for as discontinued operations. As a result, Counsel's 1997 financial statements and its results for the first nine months of 1998 were reclassified to reflect this change in presentation.

Earnings from discontinued pharmacy services operations in 1999 are comprised of the after tax gain of $189.0 million on the sale of Stadtlander net of the after tax loss on the exchange of the Company's PharMerica shares for shares of Bergen. The loss from discontinued home health care operations in 1999 reflects the writedown of Counsel's investment in AHOM to reflect management's estimate of net realizable value.

As Stadtlander was sold to Bergen in January 1999 and PharMerica was merged with Bergen in April 1999, a description of Counsel's discontinued pharmacy services operations would not be meaningful.

The Company's discontinued home health care segment is comprised solely of AHOM. Headquartered just outside Nashville, Tennessee, AHOM is a public company, listed on the NASDAQ OTC Bulletin Board. A more complete description of its business and 1999 financial results, including its management's discussion and analysis of financial condition and results of operations, may be found in its Form 10-K for the fiscal year ended December 31, 1999 filed with the United States Securities and Exchange Commission.

AHOM has three principal services or product lines: home respiratory services, home infusion services and home medical equipment and supplies. Home respiratory services include oxygen systems, nebulizers and home ventilators and are provided primarily to patients with severe and chronic pulmonary diseases. Home infusion services are used to administer nutrients, antibiotics and other medications to patients with medical conditions such as neurological impairments, infectious diseases or cancer. AHOM also sells and rents a variety of home medical equipment and supplies, including wheelchairs, hospital beds and ambulatory aids. These services and products are paid for primarily by Medicare, a US federally funded and administered health insurance program, Medicaid, a US state administered program that provides reimbursement for certain medical services and products, and other third party payors.

AHOM's goal is to maintain a diversified offering of home health care services, including a higher percentage of infusion therapy services than it has currently, in order to provide the comprehensive array of services that managed care organizations are likely to require.

In response to the 30% reimbursement cuts for Medicare home oxygen services included in the Balanced Budget Act enacted in 1997 by the United States Congress, AHOM initiated a restructuring program at the end of the third quarter of 1997. It continues to implement a variety of initiatives to lower its costs.

Counsel's balance sheet as at December 31, 1999, on a non-consolidated basis, can be summarized as follows:

(In 000s)		
Cash and short term investments		$ 87,877
Portfolio investments		3,013
Long term care facilities	$ 24,674	
Less: related mortgages	20,367	4,307
Equity in net assets of FARO		74,595
Equity in Impower		9,735
Equity in discontinued home health care operations		2,388
Other assets	21,316	
Less: other liabilities	20,584	732
Convertible debentures		(44,659)
Deferred income taxes		(15,644)
Shareholders' equity		$ 122,344

The estimated fair value of short term and portfolio investments at December 31, 1999 exceeded their carrying value by approximately $11.0 million.

As discussed previously, the value of the Company's long term care facilities is believed to be at least equal to their net book value at April 30, 1994 when they were leased to Advocat.

Counsel's discontinued home health care operations consist solely of 3,979,625 common shares of AHOM.

Counsel's other assets and liabilities consist primarily of the operating assets and liabilities of the seven nursing homes leased by the Company as well as residual mortgages and real estate that it is in the process of selling or otherwise disposing.

Counsel's sources of cash flow include earnings from its wholly owned long term care operations and its interest in its pharmaceutical products business, as well as from asset sales and the repayment of mortgages, loans and other receivables. In addition, during 1998 the Company was party to a credit agreement with a major Canadian chartered bank allowing it to borrow up to $100 million to be used for health care acquisitions in the United States. This facility matured and was repaid in full on January 22, 1999 from the proceeds of the sale of Stadtlander.

There are no restrictions on the repayment of advances or payment of dividends by any of the Company's subsidiaries. The current policy of FARO is to retain all of its earnings to finance the expansion of its business, although it does make the interest payments on its loans from Counsel and did pay down its bridge loan by $8 million in 1999. One of Counsel's objectives is that its subsidiaries and affiliates be self-financing and, to that end, the Company is closely involved in planning, structuring and arranging the debt and equity offerings of its related companies.

Counsel's cash requirements and scheduled principal repayments during 2000 will be met from cash and short term investments, operating cash flow and the realization of assets, all of which are expected to provide sufficient cash to satisfy the Company's current and anticipated obligations. The $40 million note issued to Glaxo in connection with the acquisition of the Glaxo Products is required to be secured by a pledge of $40 million of Counsel assets.

The Company's $50 million of convertible debentures issued October 31, 1996 are redeemable at its option provided the weighted average price at which Counsel's common shares have traded during the 20 consecutive trading days immediately prior to the redemption date is at least 125% (115% after October 31, 2000) of the $11.726 conversion price.

Counsel has no restrictions on paying dividends. On July 20, 1999, the Company paid a special dividend of C$1.50 per share primarily related to the realization of value on the successful sale of Stadtlander. As a result of the dividend, the conversion price of the Company's convertible debentures was reduced to $11.726 from $13.875. The Company plans to pay a dividend in kind of all of its AHOM shares in 2000 to complete the disposition of this discontinued operation.

On December 12, 1997, the Company commenced a normal course issuer bid for its common shares in accordance with the by-laws and policies of The Toronto Stock Exchange. The normal course issuer bid was renewed on December 14, 1998 by which time the Company had purchased a total of 335,800 shares for cancellation at an average price of C$11.61 per share. The renewed bid allowed the Company to purchase up to 1,690,000 shares during the period from December 14, 1998 to December 13, 1999 and that number of shares was purchased for cancellation, at an average price of C$11.00 per share. The normal course issuer bid was again renewed on December 14, 1999 and allows the Company to purchase up to 1,705,418 shares during the period from December 14, 1999 to December 13, 2000. At March 31, 2000, 836,420 shares had been purchased pursuant to the most recent issuer bid at an average price of C$3.63 per share. Also effective December 14, 1999, the Company commenced a normal course issuer bid for its convertible debentures which allows it to purchase up to $5 million principal amount of debentures during the period from December 14, 1999 to December 13, 2000. At March 31, 2000, no debentures had been purchased pursuant to this issuer bid.

To the Shareholders of Counsel Corporation

We have audited the consolidated balance sheets of Counsel Corporation as at December 31, 1999 and December 31, 1998 and the consolidated statements of earnings, shareholders' equity and cash flows for the two years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1999 and December 31, 1998 and the results of its operations and the changes in its cash flows for the two years then ended in accordance with Canadian generally accepted accounting principles.

Soberman Isenbaum & Colomby LLP

Soberman Isenbaum & Colomby LLP
Chartered Accountants

Toronto, Canada
April 7, 2000

CONSOLIDATED BALANCE SHEETS

(In 000s of US$) At December 31

	1999	1998
ASSETS		
Current assets		
Cash and cash equivalents	$ 19,788	$ 15,998
Short term investments *(Note 5)*	71,940	2,656
Amounts receivable	9,527	4,667
Income taxes recoverable	5,268	1,781
Inventory	7,419	4,215
Mortgages and other advances *(Note 6)*	1,679	159
Other assets *(Note 7)*	2,110	2,610
Deferred income taxes *(Note 15)*	1,948	704
Discontinued assets *(Note 3)*	2,388	207,240
	122,067	240,030
Mortgages and other advances *(Note 6)*	4,264	4,382
Other assets *(Note 7)*	15,518	14,044
Portfolio investments *(Note 8)*	3,013	–
Equity in Impower, Inc. *(Note 4)*	9,735	–
Long term care facilities *(Note 9)*	24,674	25,497
Product acquisition costs	99,721	108,362
Discontinued assets *(Note 3)*	–	103,150
	$ 278,992	$ 495,465
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank indebtedness	$ –	$ 76,500
Accounts payable and accrued charges	27,078	19,953
Deferred revenue	995	2,115
Mortgages and loans payable *(Note 10)*	343	4,358
Discontinued liabilities *(Note 3)*	–	167,249
	28,416	270,175
Deferred revenue	1,923	1,860
Mortgages and loans payable *(Note 10)*	20,325	20,645
Other long term debt *(Note 11)*	84,659	84,659
Deferred income taxes *(Note 15)*	16,646	843
	151,969	378,182
Minority interest	4,679	984
Shareholders' equity	122,344	116,299
	$ 278,992	$ 495,465

The accompanying notes are an integral part of the financial statements.

On behalf of the Board

Allan Silber,
Director

Morris Perlis,
Director

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In 000s of US$) Year ended December 31

	Common Shares (Note 12) No. of Shares (In 000s)	Amount	Equity Component Debentures Payable (Note 11)	Retained Earnings (Deficit)	Total Share-holders' Equity
Balance, December 31, 1997	27,947	$125,127	$ 5,341	$ 10,696	$141,164
Shares issued	90	640			640
Shares purchased for cancellation	(336)	(1,476)		(1,251)	(2,727)
Interest on equity component of debentures payable				(390)	(390)
Income tax benefit on employee stock options				236	236
Net loss				(22,624)	(22,624)
Balance, December 31, 1998	27,701	124,291	5,341	(13,333)	116,299
Shares issued	**20**	**32**			**32**
Shares purchased for cancellation	**(2,188)**	**(8,072)**		**(5,660)**	**(13,732)**
Interest on equity component of debentures payable				**(595)**	**(595)**
Dividends				**(26,357)**	**(26,357)**
Net earnings				**46,697**	**46,697**
Balance, December 31, 1999	**25,533**	**$116,251**	**$ 5,341**	**$ 752**	**$122,344**

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

(In 000s of US$ except per share amounts)	Year ended December 31 1999	1998
Revenues	**$ 75,701**	$ 53,543
Earnings		
From operating businesses		
Pharmaceutical products	**$ 15,614**	$ 1,307
e-Commerce	**40**	–
Clinical laboratory	–	466
Long term care	**681**	1,212
Realization of value in operating businesses *(Note 14)*	**1,929**	2,232
Interest and other income	**5,803**	7,908
Earnings before undernoted expenses	**24,067**	13,125
Corporate	**3,893**	3,008
Interest	**8,962**	3,042
Amortization	**7,204**	1,372
Earnings from operations	**4,008**	5,703
Writedown of investments	**(148,456)**	–
Earnings (loss) before income taxes and minority interest	**(144,448)**	5,703
Income tax recovery *(Note 15)*	**(54,001)**	(871)
Minority interest	**(1,079)**	(111)
Earnings (loss) from continuing operations	**(89,368)**	6,685
Earnings from discontinued pharmacy services operations after tax *(Note 3)*	**150,594**	3,793
Loss from discontinued home health care operations after tax *(Note 3)*	**(14,529)**	(33,102)
Net earnings (loss)	**$ 46,697**	$ (22,624)
Earnings per share – basic		
Earnings (loss) from continuing operations	**$ (3.43)**	$ 0.22
Earnings (loss) from discontinued operations after tax	**5.19**	(1.05)
Net earnings (loss) – basic	**$ 1.76**	$ (0.83)
Earnings (loss) per share – fully diluted		
Earnings (loss) from continuing operations	**$ (3.43)**	$ 0.22
Earnings (loss) from discontinued operation after tax	**4.78**	(1.05)
Net earnings (loss) – fully diluted	**$ 1.35**	$ (0.83)
Weighted average number of common shares outstanding *(in 000s)*	**26,258**	27,881

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In 000s of US$) Year ended December 31	1999	1998
Cash provided by (used in) operating activities		
Earnings (loss) from continuing operations	$ (89,368)	$ 6,685
Non-cash items included in net earnings		
Writedown of investments	148,456	–
Amortization	7,204	1,372
Amortization of deferred revenue	(1,057)	(1,703)
Deferred income taxes	(53,334)	163
Minority interest	(1,079)	(111)
Equity in earnings of affiliate	(29)	
Gain on realization of value in operating businesses	(1,929)	(2,232)
(Increase) decrease in amounts receivable	(3,146)	2,437
Increase in income taxes recoverable	(2,147)	(1,028)
Increase in inventory	(2,891)	(4,170)
(Increase) decrease in other assets	739	(2,807)
Increase in accounts payable	1,107	11,368
Discontinued operations	–	(7,948)
Net cash provided by operating activities	2,526	2,026
Cash provided by (used in) investing activities		
Investment in Impower, Inc.	(10,000)	–
Investment in portfolio companies	(3,013)	–
Acquisition of pharmaceutical product businesses	(2,483)	(114,482)
Mortgages and other advances – lending	(1,402)	–
Mortgages and other advances – repayments	655	530
Purchase of property and equipment	(1,638)	–
Drug development costs	(482)	–
Proceeds on realization of value in operating businesses	1,690	3,070
Disposition of interest in pharmaceutical products business	4,627	–
Other investments	(6,419)	333
Discontinued operations	156,397	–
Net cash provided by (used in) investing activities	137,932	(110,549)
Cash provided by (used in) financing activities		
Increase (decrease) in bank indebtedness	(76,500)	75,500
Borrowings (repayments) of mortgages and loans payable	(4,312)	3,056
Other long term debt	–	40,000
Issuance of capital stock	32	640
Shares purchased for cancellation	(13,732)	(2,727)
Interest paid on equity component of debentures payable	(595)	(390)
Dividends paid	(26,357)	
Discontinued operations	(15,204)	–
Net cash provided by (used in) financing activities	(136,668)	116,079
Increase in cash and cash equivalents	3,790	7,556
Cash and cash equivalents, beginning of year	15,998	8,442
Cash and cash equivalents, end of year	$ 19,788	$ 15,998
Supplemental disclosure of cash flow information		
Cash paid during the period for items relating to continuing operations		
Interest	$ 7,234	$ 4,624
Income tax refunds	$ (1,082)	
Income tax payments	$ 1,751	–
Portion of proceeds on sale of pharmacy services business derived from capital stock of the purchaser	$ 207,174	–

The accompanying notes are an integral part of the financial statements.

(Table amounts in 000s except per share amounts) December 31, 1999 and 1998

The consolidated financial statements of Counsel Corporation (the "Company") are prepared in accordance with accounting principles generally accepted in Canada and are presented in United States ("US") dollars. The accounting principles used differ in certain respects with those generally accepted in the US, as described in *Note 21*.

The consolidated financial statements include the accounts of the Company and all companies in which it has voting control. The results of operations of companies acquired during the years are included from the dates of acquisition.

The Company's principal operating subsidiaries and its respective voting interest in each subsidiary at December 31, 1999 and 1998 are as follows:

	1999	1998
Counsel Healthcare Assets Inc. *(i)*	–	100%
FARO Pharmaceuticals Inc. ("FARO") *(Note 4)*	**78.3%**	90.4%
Sage BioPharma Inc. ("Sage") *(Note 4) (ii)*	–	61%
Stadtlander Drug Company Inc. ("Stadtlander") *(Note 3 (a)) (iii)*	–	100%

(i) Effective at the close of business December 31, 1998 the Company amalgamated with its wholly owned subsidiary, Counsel Healthcare Assets Inc.
(ii) Effective December 31, 1999, FARO acquired all of the outstanding shares of Sage.
(iii) Effective January 21, 1999 the Company sold Stadtlander.

Corporations over which voting control does not exist but significant influence is exercised are carried on the equity method. The Company's proportionate share of revenues from these corporations is included in the Company's revenues. Amortization of the difference between acquisition cost and the underlying fair value of the net identifiable assets acquired at the date of acquisition is included in amortization expense.

The principal operating affiliates over which the Company exerts significant influence and its respective voting interest in each affiliate at December 31, 1999 and 1998 are as follows:

	1999	1998
Impower, Inc. ("Impower") *(Note 4)*	**25.2%**	–
American HomePatient Inc. ("AHOM") *(Note 3 (b))*	**26.3%**	26.6%

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

The accounts of integrated Canadian entities are translated into US dollars at the exchange rate prevailing at the year end for all monetary assets and liabilities and at historical exchange rates for all non-monetary assets and liabilities. Revenues and expenses, other than amortization and similar accounts which are translated at historical rates, are translated at average exchange rates during the year. Exchange gains or losses arising from the translation of integrated operations have been included in earnings.

Short term investments are carried at the lower of cost and market value. Unrealized losses in value are included in the determination of earnings as a writedown of investments.

Inventory is valued at the lower of cost (first-in, first-out) or market and is comprised of finished goods and samples.

Portfolio investments are carried at cost. When there has been a loss in value of an investment that is other than temporary, the investment is written down to its estimated net realizable value.

(i) Debt instruments of the Company that contain an option to convert such instruments into equity of the Company by the issuer and holder have both a financial liability and an equity component. At the time of issuance, the face amount of the debt instrument is separated into its liability and equity components and presented on the balance sheet as long term debt and shareholders' equity, respectively. The liability component is derived by computing the present value of the future principal and interest payment obligations under the debt instrument at the prevailing interest rate at the time of issuance for debt securities without conversion features. The equity component is the residual after deduction of the liability component from the face amount of the debt instrument. Interest on such debt instruments relating to the financial liability component is charged to earnings, and interest relating to the equity component is charged to retained earnings.

(ii) The carrying amounts reported on the balance sheet for amounts receivable, bank indebtedness and accounts payable and accrued charges approximate their fair values. The fair values of other financial instruments are disclosed in *Notes 5, 8* and *16*. The estimated fair value of marketable securities carried at cost are based on quoted market values. Other fair value amounts are based upon discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. Fair value estimates are not necessarily indicative of the amounts the Company might pay or receive in actual market transactions. Potential transaction costs have also not been considered in estimating fair value. The fair value estimates are based on pertinent information available to management as at the balance sheet date. Such amounts have not been comprehensively revalued for purposes of these financial statements since that date, and current estimates of fair value may differ significantly from the amounts presented herein.

Costs to acquire the rights to pharmaceutical products are capitalized and amortized on a straight-line basis over 20 years. Accumulated amortization of these costs amounted to $5,655,000 at December 31, 1999 (1998 – $328,000). The carrying value of unamortized product acquisition costs is evaluated to determine whether any impairment of these assets has occurred or whether any revision to the related amortization period should be made. This evaluation is based on management's projections of the undiscounted future cash flows associated with each product. Any impairment would be recognized by a writedown of the applicable asset.

(i) Long term care facilities are recorded at the lower of cost and estimated net recoverable amount. Amortization is provided using the sinking fund method, under which an increasing amount, consisting of a fixed annual sum together with interest thereon compounded at a rate of 5% per annum, is charged to earnings so as to fully amortize the buildings over a 33-year period.

(ii) Furniture, equipment and leasehold improvements are recorded at cost with amortization being provided over their estimated useful lives as follows:

Furniture and equipment – straight-line or accelerated method over periods from 3 to 7 years and declining balance method at 20% per annum

Leasehold improvements – straight-line over the shorter of the term of the lease or estimated useful life of the asset

(iii) Financing costs are amortized over the term of the related debt.

(iv) Goodwill, representing the excess of cost over the fair value of net identifiable assets acquired, is being amortized by the straight-line method over various periods ranging from 5 to 40 years. The Company annually evaluates whether there has been a permanent impairment in the value of goodwill. Factors considered in this evaluation include an assessment of historical income trends and future projected earnings from operations of businesses acquired, on an undiscounted basis, as well as other market indicators.

Deferred revenue is being amortized on a straight-line basis over periods ranging from 5 to 10 years.

Cash and cash equivalents are comprised of cash and short term market investments with original maturities of three months or less. At December 31, 1999 cash equivalents were $11,700,000 (1998 – $2,284,000).

The Company and FARO have stock-based compensation plans, which are described in *Note 13*. No compensation expense is recognized for these plans when stock or stock options are issued to employees and directors. Any consideration paid by employees and directors on exercise of stock options or purchase of stock is credited to share capital.

Certain comparative figures have been reclassified to conform to current year financial statement presentation.

Effective January 1, 1999, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to the presentation of cash flow information. Cash flow information for the prior year has been restated to conform to the new recommendations. There was no material effect to the statements of cash flows due to the adoption of these new recommendations.

Under the new recommendations, non-cash transactions are excluded from the statement of cash flows and are disclosed elsewhere in the financial statements. Cash equivalents are restricted to investments that are readily convertible into a known amount of cash, that are subject to minimal risk of changes in value and which have an original maturity of three months or less. As well, changes in short term borrowings, other than temporary overdrafts which are an integral part of the Company's day-to-day cash management process, are treated as financing activities.

Effective January 1, 1999, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for income taxes. This change in accounting policy did not have a material impact in the calculation of the current or prior year's income tax expense nor on the future tax assets and liabilities, and has therefore been accounted for prospectively.

Under the new recommendations, the liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Prior to the adoption of the new recommendations, income tax expense was determined using the deferral method of tax allocation. Income tax expense was based on items of income and expense that were reported in different years in the financial statements and tax returns and measured at the tax rate in effect in the year the difference originated.

Discontinued pharmacy services operations include the specialty retail pharmacy business of Stadtlander and the Company's interest in the institutional pharmacy business of PharMerica Inc. ("PharMerica"). During 1999, the Company's plan of disposal for this segment was completed. On January 21, 1999 the Company sold Stadtlander to Bergen Brunswig Corporation ("Bergen") for net sale proceeds of $333,852,000, comprised of $171,374,000 in cash and $162,478,000 in stock, consisting of 5,676,101 common shares of Bergen. The disposition resulted in a gain of $188,986,000 after income taxes of $71,214,000 (see *Note 15*). Included in the determination of the after tax gain is the cost of cancellation of all Stadtlander outstanding employee and director stock options aggregating $25,058,000. Of this amount, $19,874,000 was paid to officers of the Company.

On April 26, 1999, Bergen acquired 100% of the stock of PharMerica in exchange for .275 of a share of Bergen for each outstanding share of PharMerica. Proceeds of $44,696,000 for the Company's interest in PharMerica were based on the fair value of the 2,156,554 shares of Bergen received. The exchange of the Company's interest in PharMerica for Bergen stock resulted in an after tax loss of $38,392,000 after an income tax recovery of $3,147,000.

Summarized below is selected financial information for discontinued pharmacy services operations for 1999 and 1998:

	1999	1998
Revenue	$ –	$ 395,371
After tax earnings from discontinued operations prior to measurement date	$ –	$ 3,793
Net gain from discontinued operations after tax	150,594	–
Earnings from discontinued operations after tax	$ 150,594	$ 3,793

Included in after tax earnings from discontinued operations prior to measurement date is interest on corporate debentures allocated based on the ratio of net assets of discontinued pharmacy services operations to consolidated net assets.

Effective November 6, 1998, the Company adopted a plan to dispose of its home health care operations through the disposition of its interest in AHOM. Accordingly, the Company adjusted the carrying value of its investment in AHOM to reflect both the estimated future operating losses and estimated net realizable value of its investment. During 1999, the market value of the Company's interest in AHOM declined from its December 31, 1998 level. As a result, management determined that a sale of the Company's interest in AHOM did not offer an optimal return to the Company's shareholders. Subsequent to the year end, a dividend in kind of the Company's interest in AHOM was declared, resulting in an after tax loss of $14,529,000.

Summarized below is selected financial information for discontinued home health care operations for 1999 and 1998:

	1999	1998
Revenue	$ –	$ 91,890
After tax earnings from discontinued operations prior to measurement date	$ –	$ (1,555)
Net loss from discontinued operations after tax	**(14,529)**	(31,547)
Loss from discontinued operations after tax	**$ (14,529)**	$ (33,102)

Impower, Inc.

On October 22, 1999, the Company acquired a 25.2% interest in Impower for cash consideration of $10,000,000. Impower provides transaction-based Internet direct marketing and electronic database management products and services. The acquisition has been accounted for under the purchase method of accounting. The cost of the acquisition was allocated on the basis of the fair market value of assets acquired ($2,893,000) and liabilities assumed ($445,000), resulting in $7,552,000 of unallocated excess of cost over the net assets acquired, which is being amortized over a period of 5 years. The Company is committed to the acquisition of an additional 8.4% of Impower for cash consideration of $5,000,000, after which the Company will hold a 33.6% interest.

FARO Pharmaceuticals Inc.

On November 12, 1998, the Company completed the acquisition of an 82.5% interest in FARO for cash consideration of $5,484,000. On December 15, 1998, a further 7.9% interest was acquired for cash consideration of $10,000,000 resulting in a 90.4% interest at December 31, 1998. These acquisitions have been accounted for under the purchase method of accounting. The cost of these acquisitions was allocated on the basis of the fair market value of the assets acquired ($15,280,000) and the liabilities assumed ($1,979,000). These valuations gave rise to $3,446,000 of unallocated excess of cost over net assets acquired, which is being amortized over a period of 20 years. Minority interest at December 15, 1998 amounted to $1,263,000.

On December 15, 1998, FARO acquired all rights including trademarks, copyrights and regulatory filings to certain pharmaceutical products from Glaxo Wellcome Inc. for a total consideration of $105,356,000 comprised of $65,356,000 in cash and $40,000,000 in a vendor note. The cost of the acquisition is being amortized over a period of 20 years (*Note 1 (h)*).

As a result of a FARO private placement on March 17, 1999, the exercise of pre-emptive rights, the exercise of employee stock options in FARO during 1999 and the acquisition of Sage by FARO, effective December 31, 1999, the Company's interest in FARO decreased from 90.4% at December 31, 1998 to 78.3% at December 31, 1999. Since both FARO and Sage were controlled by the Company, the acquisition was accounted for in a similar manner to a pooling of interests.

The Company has warrants to acquire an additional 2.1% of FARO for cash consideration of $4,125,000. The warrants expire as to 88% in 2001 and the remainder in 2002. At December 31, 1999, the Company's fully diluted ownership interest in FARO is 75.6%.

Sage BioPharma Inc.

On June 30, 1998, the Company acquired a controlling interest in Sage for nominal consideration. Sage is engaged in providing hormonal therapy products in the United States. At December 31, 1998, the Company

had invested $1,470,000 in preferred stock of Sage. Also on June 30, 1998, Sage acquired the rights to market certain hormonal pharmaceutical products in North America for a period of 10 years from the date those products are approved for distribution.

In January 1999, Sage acquired substantially all of the net assets of Advanced Reproductive Technologies, Inc. for $275,000 including note consideration of $115,000. The acquisition has been accounted for under the purchase method of accounting. The cost of the acquisition was allocated on the basis of the fair market value of assets acquired ($60,000) and liabilities assumed ($61,000). The valuation resulted in $276,000 of unallocated excess of cost over net liabilities assumed, which is being amortized over a period of 10 years.

In March 1999, Sage acquired substantially all of the net assets of Fertility Technologies, Inc. for cash consideration of $2,323,000. The acquisition has been accounted for under the purchase method of accounting. The cost of the acquisition was allocated on the basis of the fair market value of assets acquired ($701,000) and liabilities assumed ($295,000). The valuation resulted in $1,917,000 of unallocated excess of cost over net assets acquired, which is being amortized over a period of 10 years.

During 1999, the Company increased its investment in preferred stock of Sage from $1,470,000 to $6,500,000. Effective December 31, 1999, due to FARO's purchase of Sage, the Company exchanged its common and preferred stock of Sage, for common and preferred stock of FARO.

Summarized below is selected financial information relating to short term investments at December 31, 1999:

	Number of Shares	Carrying Amount	Fair Value
Bergen Brunswig Corporation	7,832	$ 65,090	$ 65,090
RioCan REIT	1,309	6,216	7,841
Other		634	658
		$ 71,940	$ 73,589

The Company's investment in Bergen acquired as partial consideration for the sale of Stadtlander to Bergen and the share for share exchange of PharMerica for Bergen (see *Note 3 (a)*) had an initial accounting basis of $207,174,000. Subsequent to December 31, 1999 management determined that the Bergen stock should be reclassified from portfolio investments to short term investments. Consequently, this investment has been written down by $142,084,000 based on the quoted market price of $8.31 per share at December 31, 1999.

The mortgages and other advances bear interest at rates ranging from 0% to 9.25% (1998 – 0% to 9.25%) with a weighted average year end rate of 2.6% (1998 – 3.2%) and are receivable as follows:

2000	$ 1,679
2001	1,039
2002	–
2003	–
2004	1,554
Thereafter	1,671
	$ 5,943

Approximately 57.4% (1998 – 65.5%) of mortgages and other advances are receivable in Canadian dollars.

Included in mortgages and other advances are non-interest bearing loans due from executive officers for the purchase of shares of the Company. Summarized below is selected financial information for share purchase loans at December 31, 1999:

Date of Advance	Carrying Amount	Date of Maturity	Number of Shares Held as Security	Market Value of Shares at December 31, 1999
January 19, 1996	$ 1,039	(see *Note 13 (a) (ii)*)	300	$ 600
November 30, 1999	83	November 29, 2004	50	100
December 17, 1999	1,471	December 16, 2004	852	1,704
	$ 2,593		1,202	$ 2,404

Other assets are as follows:

	1999	1998
Capital assets (net of amortization of $1,332; 1998 – $815)	**$ 3,390**	$ 1,622
Other investments	**4,508**	6,840
Financing costs	**1,574**	2,976
Prepaid expenses	**1,170**	686
Security deposits	**118**	121
Goodwill (net of amortization of $697; 1998 – $293)	**6,868**	4,409
	17,628	16,654
Less – current portion	**(2,110)**	(2,610)
	$ 15,518	$ 14,044

Summarized below is selected financial information relating to portfolio investments at December 31, 1999.

	Number of Shares	Carrying Amount	Fair Value
Delano Technologies Inc.	845	$ 2,000	$ 9,290
HIP Interactive Inc.	1,500	1,013	3,116
		$ 3,013	$ 12,406

The Company's investment in long term care facilities is as follows:

	1999	1998
Land	$ 2,226	$ 2,226
Buildings and improvements	28,439	28,439
Equipment	4,341	4,341
Accumulated amortization	(10,332)	(9,509)
	$ 24,674	$ 25,497

The mortgages and loans secured by long term care facilities bear interest at rates ranging from 7.93% to 8.55% (1998 – 7.93% to 9.0%) with a weighted average year end rate of 8.30% (1998 – 8.41%) and are repayable as follows:

2000	$ 343
2001	225
2002	225
2003	225
2004	7,256
Thereafter	12,394
	$ 20,668

Approximately 64.5% (1998 – 61.7%) of mortgages and loans payable are repayable in Canadian dollars.

Other long term debt is as follows:

	1999	1998
Debentures payable	$ 44,659	$ 44,659
Note payable	40,000	40,000
	$ 84,659	$ 84,659

On October 31, 1996, the Company issued $50,000,000 of convertible unsecured subordinated debentures bearing interest at 6% per annum payable semi-annually on April 30 and October 31 and maturing on October 31, 2003.

The debentures had no redemption privileges on or prior to October 31, 1998. After October 31, 1998 and on, or prior to, November 1, 2001, the Company may redeem the debentures at par plus accrued interest, but only if the weighted average price at which the common shares of the Company have traded during the 20 consecutive trading days immediately prior to the redemption date is at least 125% of the conversion price if notice to redeem is given before November 1, 2000 and 115% of the conversion price if given on or after November 1, 2000 and before November 1, 2001. The Company may redeem the debentures at any time on or after November 1, 2001 at par plus accrued interest.

The Company may elect to satisfy its obligation to pay principal upon redemption or at maturity by the issuance of its own common shares to the holders of the debentures. The number of shares to be issued is obtained by dividing the face amount of the debentures by 95% of the weighted average trading price of the common shares for the 20 consecutive trading days, ending on the fifth trading day prior to the date of notice of such election.

The debentures are convertible into common shares of the Company at the option of the holder at any time prior to the earlier of the maturity date and the last business day immediately preceding the date fixed for redemption at a conversion price of $11.73 per share.

As a result of the debentures being convertible into common shares of the Company at the option of the issuer and holder, the debentures have both a liability and equity component. At the date of issue, the following represent these components:

Face amount	$ 50,000
Financial liability component being the present value of future principal and interest obligations at a discount rate of 8.15%	44,659
Equity component	$ 5,341

On December 15, 1998, a vendor note in the amount of $40,000,000 was assumed as part of the consideration for the acquisition of all rights to certain pharmaceutical products by FARO (*Note 4*). The note is payable in equal quarterly principal instalments of $3,333,333, commencing March 15, 2001 and concluding on December 15, 2003. The note bears interest at a rate of 2% above the posted 90-day LIBOR as of the first day of each quarter and is payable quarterly. At December 31, 1999, the note was secured by the pledge of 5,715,101 shares of Bergen (see *Notes 3* and *5*).

	Number of Shares 1999
Authorized:	
Preferred shares	Unlimited
Common shares	Unlimited

During 1999, the Company replaced its special shares with one class of preferred shares issuable in series and changed the authorized number of its common shares to an unlimited number.

	Number of Shares		Amount	
	1999	1998	**1999**	1998
Issued:				
Common shares	**25,533**	27,701	**$ 116,251**	$ 124,291

During 1999, pursuant to normal course issuer bids, the Company acquired 2,188,500 common shares for cancellation (1998 – 335,800 common shares).

At December 31, 1999, the Company had three stock-based compensation plans, comprised of two fixed stock option plans and one share purchase plan.

(i) Fixed stock option plans

Under the 1992 Director, Officer and Employee Stock Option Plan, the Company may grant options to its directors, officers and employees for up to 2,700,000 common shares. Under the 1997 Stock Option Plan, the Company may grant options to its directors, officers, employees and any other person or company engaged to provide ongoing management or consulting services for the Company, for up to 4,200,000 common shares. Under both plans, the exercise price of each option equals the market price of the Company's common shares on the date of grant. The maximum term of the grant is 6 years from the date of initial vesting of any portion of the grant. Unless otherwise provided, options vest 20% on the date of grant and 20% on each of the first through fourth anniversaries of the grant date. All unvested options vest upon a change of control of the Company.

A summary of the status of the Company's fixed stock option plans at December 31, 1999 and 1998, and changes during the years ended December 31, 1999 and 1998, is presented below:

	1999		1998	
	Number of Shares	Weighted Average Exercise Price (in C$)	Number of Shares	Weighted Average Exercise Price (in C$)
Fixed stock options				
Outstanding at beginning of year	**3,119**	**$ 14.76**	3,146	$ 14.58
Granted	**477**	**10.17**	73	14.54
Exercised	**(20)**	**2.40**	(50)	11.74
Forfeited	**(6)**	**17.53**	(50)	13.66
Outstanding at end of year	**3,570**	**$ 14.21**	3,119	$ 14.76
Options exercisable at end of year	**2,961**	**$ 14.74**	2,847	$ 14.73

The following table summarizes information about fixed stock options outstanding and exercisable at December 31, 1999.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices (in C$)	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price (in C$)	Number Exercisable	Weighted Average Exercise Price (in C$)
$2.40	92	.49 years	$ 2.40	92	$ 2.40
$7.85 to $10.50	560	4.82	9.91	99	8.95
$12.50 to $15.30	1,788	3.01	13.83	1,760	13.85
$16.50 to $20.25	1,130	3.19	17.92	1,010	17.97
$2.40 to $20.25	3,570	3.28	$ 14.21	2,961	$ 14.74

(ii) Share purchase plan
Under the Company's Share Purchase Plan, the Company is authorized to issue up to 300,000 common shares to executive officers. The purchase price of its shares equals the market price of the Company's common shares on the date of purchase. The Company lends the full amount of the purchase price to the participant and loans are non-interest bearing and due on the later of five years from the date of advance and the date on which the shares purchased under the plan have a market value equal or greater than twice the amount of the loan outstanding but, in any case, no later than the tenth anniversary of the date of advance. All of the shares authorized under the plan were issued in 1996 (see *Note 6*).

At December 31, 1999, FARO, had two fixed stock-based compensation plans. Under the company's 1994 Stock Option Plan, the company may grant to its officers, employees and independent contractors who perform services for the company up to 1,500,000 shares of common stock. Under the company's 1999 Stock Option Plan, the company may grant to its officers, employees and independent contractors who perform services for the company up to 12,300,000 shares of common stock. Options granted under the plans may be either incentive or non-qualified stock options. Incentive stock options granted to employees must be at an exercise price not less than fair market value at the date of the grant. Non-qualified options may be granted at a price not less 85% of fair market value at the date of the grant. The maximum term of the grant is 10 years from the date of the grant. Unless otherwise provided, options vest 33.33% on the date of the grant and 33.33% on each of the following two anniversaries of the grant date. All unvested options vest upon a change of control of the company (see *Note 4*).

A summary of the status of the company's fixed stock option plans at December 31, 1999 and 1998, and changes during the years ended December 31, 1999 and 1998, is presented below:

	1999		1998	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Fixed stock options				
Outstanding at beginning of year	**2,017**	**$ 0.78**	1,398	$ 1.03
Granted	**9,350**	**0.25**	1,747	0.35
Exercised	**(757)**	**0.35**	(1,006)	0.18
Forfeited	**(10)**	**0.49**	(122)	2.44
Outstanding at end of year	**10,500**	**$ 0.34**	2,017	$ 0.78
Options exercisable at end of year	**6,443**	**$ 0.40**	1,547	$ 0.87

The following table summarizes information about fixed stock options outstanding and exercisable at December 31, 1999.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$0.1 to $0.25	9,656	5 years	$ 0.24	5,679	$ 0.24
$0.40 to $1.00	230	3.00	0.52	155	0.56
$1.75 to $3.00	614	3.00	1.85	609	1.84
$0.01 to $3.00	10,500	4.73	$ 0.34	6,443	$ 0.40

	1999	1998
Pharmaceutical products	$ 437	$ –
Clinical laboratory	–	1,289
Recoveries	1,492	943
	$ 1,929	$ 2,232

Pharmaceutical products

During the year, the Company's interest in FARO was diluted due to a March 17, 1999 private placement, the exercise of pre-emptive rights, and the exercise of employee stock options. Cumulatively, these transactions resulted in a gain of $437,000.

Clinical laboratory

On November 3, 1998, the Company sold its 50.1% interest in US Lab for cash consideration of $2,003,000, resulting in a gain of $1,289,000.

The Company's income tax provision differs from the provision computed at statutory rates as follows:

	1999	1998
Earnings (loss) before income taxes and minority interest	$(144,448)	$ 5,703
Income taxes (recovery), based on statutory tax rates of 44.62%	$ (64,453)	$ 2,545
Increase (decrease) in taxes resulting from:		
Non-taxable transactions	1,745	1,975
Lower effective tax rate of foreign subsidiaries	13,256	285
Utilization of losses carried forward	(4,638)	(5,687)
Large corporation tax	89	11
Actual income tax recovery	$ (54,001)	$ (871)
Represented by:		
Current	$ 3,873	$ 4,642
Deferred (recovery)	(53,334)	163
Utilization of losses carried forward	(4,629)	(5,687)
Large corporation tax	89	11
	$ (54,001)	$ (871)

The Company's income tax provision by country is as follows:

	1999	1998
Canada		
Current	$ 108	$ 27
Deferred (recovery)	(3,900)	88
	$ (3,792)	$ 115
United States		
Current (recovery)	$ (775)	$ (1,061)
Deferred (recovery)	(49,434)	75
	$ (50,209)	$ (986)
Total		
Current (recovery)	$ (667)	$ (1,034)
Deferred (recovery)	(53,334)	163
	$ (54,001)	$ (871)

The composition of the Company's net deferred tax assets and liabilities is as follows:

	1999	1998
Current deferred tax asset:		
Revenue recognition	$ 170	$ 255
Accrued charges currently not deductible for tax	983	150
Other	795	299
Net current deferred tax asset	$ 1,948	$ 704
Non-current deferred tax asset:		
Revenue recognition	$ 308	$ 445
Basis differences of investments	4,963	–
Debt placement fees	1,001	
Other	192	180
	6,464	625
Non-current deferred tax liability:		
Basis differences of investments	(20,769)	–
Basis differences of property	(1,598)	(1,468)
Amortization of intangible assets	(743)	–
	(23,110)	(1,468)
Net non-current deferred tax liability	$ (16,646)	$ (843)

The Company and its subsidiaries are subject to income taxes on an individual basis rather than a consolidated basis. Cumulatively, the Company has non-capital losses for carryforward aggregating approximately $1,600,000 which are available for the reduction of future years' taxable incomes. In addition, the Company and its subsidiaries have capital losses aggregating $11,081,000 available for application against future capital gains. These losses have no expiry date. Included in the $71,214,000 in income taxes on the gain from the sale of Stadtlander to Bergen (see *Note 3 (a)*) is a reduction in current income taxes of $18,000,000 resulting from the Company's application of income tax losses on certain investments which the Company believes are deductible.

Financial instruments that have fair values that differ from their carrying values are as follows:

	1999		1998	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Mortgages and other advances	$ 5,943	$ 5,595	$ 4,541	$ 2,995
Mortgages and loans payable	20,668	22,161	25,003	26,798
Other long term debt	84,659	63,659	84,659	79,659

The Company has guaranteed the repayment of certain mortgages, of which $29,208,000 expire in 2004 and $9,089,000 expire in 2015. Management believes that the value of the assets securing these mortgages is sufficient to cover the guarantees provided.

The Company is committed under long term operating leases with various expiry dates to 2004 and with varying renewal options. Minimum annual rentals exclusive of taxes, insurance and maintenance costs for the next five years under these leases are as follows:

2000	$ 4,731
2001	4,817
2002	4,899
2003	4,964
2004	4,415
Thereafter	1,210

Subsequent to the closing of the sale of Stadtlander, as required under the purchase agreement, Bergen notified the Company of proposed adjustments to the calculation of the final Stadtlander purchase price (see *Note 3 (a)*). The Company reviewed Bergen's proposed adjustments and concluded that the majority were not appropriate. After attempts to resolve the disputed adjustments were unsuccessful, the Company and Bergen began the process of resolving the matter through the arbitration process that had been established in the Stadtlander purchase agreement. As the arbitration process was being initiated, Bergen filed suit against the Company on October 14, 1999 in the Superior Court of the State of California for the County of Los Angeles, seeking damages for misrepresentation with respect to the sale of Stadtlander. Management believes the action is completely without merit and the Company plans to defend its position vigorously. The Company has filed a motion to stay the Bergen lawsuit and compel the parties to deal with their dispute through arbitration as mandated by the purchase agreement. To date, this motion has not been heard and, at this time, the results of any arbitration or legal proceedings are not determinable.

Factors used in the identification of reportable segments include types of services provided and products sold, as well as differences in marketing strategies employed.

During 1999 and 1998, the Company's continuing operations included the following reportable segments:

Pharmaceutical products, being the sale of drugs and related products in the United States.

e-Commerce, being the provision of technology-based products and services to businesses and consumers in the United States.

Clinical laboratory, being the provision of clinical laboratory services in the United States (see *Note 14*).

Long term care, being the ownership and leasing of long term care facilities and operations in the United States and Canada.

The following tables provide revenues, earnings, assets, capital expenditures and significant non-cash items presented by reportable segment and geographical area.

	United States			Canada		
	Pharma. Products	e-Commerce	Long Term Care	Long Term Care	Corporate Office	Total
1999						
– Continuing operations						
Revenues	$ 36,632	$ 233	$ 1,351	$ 29,924	$ 7,561	$ 75,701
Earnings (loss) from operating businesses	$ 15,614	$ 40	$ (650)	$ 1,331	$ –	$ 16,335
Realization of value in operating businesses	437	–	–	–	1,492	1,929
Interest and other income	–	–	–	–	5,803	5,803
Earnings (loss) before undernoted expenses	16,051	40	(650)	1,331	7,295	24,067
Corporate	462	–	–	–	3,431	3,893
Interest	4,362	–	884	1,106	2,610	8,962
Amortization	5,941	294	192	590	187	7,204
Segment earnings (loss) from operations	5,286	(254)	(1,726)	(365)	1,067	4,008
Writedown of investments	(3,898)	–	–	–	(144,558)	(148,456)
Segment earnings (loss) before income taxes and minority interest	1,388	(254)	(1,726)	(365)	(143,491)	(144,448)
Income taxes (recovery)	(410)	(92)	(690)	(146)	(52,663)	(54,001)
Segment earnings (loss) before minority interest	$ 1,798	$ (162)	$ (1,036)	$ (219)	$ (90,828)	$ (90,447)
Segment assets	$ 127,988	$ 9,735	$ 8,568	$ 19,384	$ 110,929	$ 276,604
Capital expenditures	4,038				83	4,121
Other significant non-cash items:						
Amortization of deferred revenue			(263)	(794)		(1,057)
Deferred income taxes	(969)		(92)	(354)	(51,919)	(53,334)
Gain on realization of value in operating businesses					(1,929)	(1,929)

	Pharma. Products	United States Clinical Lab	Long Term Care	Canada Long Term Care	Corporate Office	Total
1998						
– Continuing operations						
Revenues	$ 3,378	$ 11,145	$ 1,351	$ 29,761	$ 7,908	$ 53,543
Earnings (loss) from operating businesses	$ 1,307	$ 466	$ (649)	$ 1,861	$ –	$ 2,985
Realization of value in operating businesses	–	1,289	–	–	943	2,232
Interest and other income	–	–	–	-	7,908	7,908
Earnings (loss) before undernoted expenses	1,307	1,755	(649)	1,861	8,851	13,125
Corporate	–	–	–		3,008	3,008
Interest	534	73	884	1,112	439	3,042
Amortization	346	35	397	408	186	1,372
Segment earnings (loss) before income taxes and minority interest	427	1,647	(1,930)	341	5,218	5,703
Income taxes (recovery)	–	135	(672)	88	(422)	(871)
Segment earnings (loss) before minority interest	$ 427	$ 1,512	$ (1,258)	$ 253	$ 5,640	$ 6,574
Segment assets	$ 132,847	$ –	$ 12,070	$ 17,765	$ 22,393	$ 185,075
Capital expenditures	114,148	101		–	233	114,482
Other significant non-cash items:						
Amortization of deferred revenue	–	–	(269)	(1,434)	–	(1,703)
Deferred income taxes	–	(40)	(35)	(88)		(163)
Gain on realization of value in operating businesses	–	(1,289)	–	–	(943)	(2,232)

On January 20, 2000, the Company acquired a 28.5% interest in Proscape Technologies, Inc. ("Proscape") for cash consideration of $4,000,000. The Company has committed to an additional $4,000,000 investment, subject to Proscape meeting certain operating thresholds. Subsequent to this additional investment, the Company's interest in Proscape will be 42.0%. Proscape provides business-to-business fact-based, enterprise sales and marketing information software systems to middle market and Fortune 1000 companies.

On February 11, 2000, the Company acquired a 1.1% interest in Ci4net.com, Inc. ("Ci4net") through the purchase of 200,000 convertible preferred shares for cash consideration of $2,000,000. Each preferred share is convertible into 2 common shares of Ci4net. Ci4net owns 50% or more of 30 web-based companies mainly serving the United Kingdom, with additional penetration in Europe, Australia and the United States.

On March 28, 2000, the Company acquired a 26% interest in IBT Technologies, Inc. ("IBT") for cash consideration of $4,000,000. IBT delivers media-rich course content over the Internet for business training and post-secondary educational applications.

On March 28, 2000, the Company acquired a 22.5% interest in Core Communications Corporation ("Core") for cash consideration of $1,500,000. The Company has committed to an additional $1,000,000 investment in Core. Subsequent to this additional investment, the Company's interest in Core will be 32.6%. The Company has been granted warrants to purchase stock of Core at a cost of $833,000 which, if exercised, will increase the Company's interest to 39.1%. By installing a shared local area network, Core provides high-speed Internet access solutions and other communication services to trade shows, conventions, seminars and conferences.

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) in Canada, as promulgated by the Canadian Institute of Chartered Accountants. There are a number of differences between Canadian and United States GAAP which apply to the Company's operations. For the information of the Company's United States shareholders, the major differences are described below and their effect on the consolidated statement of earnings and the consolidated balance sheet is summarized. The effect on the consolidated statement of changes in financial position is not significant.

The differences between Canadian and United States GAAP as they apply to the Company are as follows:

The Company follows the Canadian method of providing amortization of long term care facilities on the sinking fund basis. Under United States GAAP, the straight-line method of amortization is required.

The Company follows the Canadian method of separate presentation of the financial liability and equity components of a debt instrument, when such debt instrument is convertible into equity of the Company by both the issuer and the holder. Interest relating to the financial liability component is included in the determination of income, and interest relating to the equity component is charged to retained earnings as an equity distribution to the holder. Under United States GAAP, allocation of compound financial instruments is not appropriate.

The Company follows the Canadian method of carrying short term investments at the lower of cost and market. Unrealized losses in value are included in the determination of earnings. Under United States GAAP, trading securities are carried at market, with unrealized gains and losses included in earnings.

The Company follows the Canadian method of carrying portfolio investments at cost and writing them down when permanent impairment occurs. Under United States GAAP, available-for-sale securities, which include any security for which the Company has no immediate plans to sell but which may be sold in the future, are carried at fair value based on quoted market prices. Realized gains and losses, net of tax, including declines in value judged to be other-than-temporary are included in the determination of earnings. Unrealized gains and losses are recorded, net of related income tax effects, as a separate component of shareholders' equity.

The Canadian and United States methods of calculating earnings per share ("EPS") are substantially the same, except that in calculating EPS under the Canadian method, cash proceeds from the deemed exercise of stock options and warrants are assumed to be invested to earn a reasonable return. Under United States GAAP, the treasury stock method is used which assumes that cash proceeds are applied to buy back the Company's own stock.

The Company follows the Canadian method of charging share issue costs to retained earnings. Under United States GAAP, all costs related to the issue of shares are offset against share proceeds with the net amount being credited to capital stock.

The Company follows the Canadian method of presentation of share purchase loans as assets where the Company has the ability and intention to enforce repayment. Under United States GAAP, share purchase loans are presented as a deduction from capital stock.

The Company follows the Canadian method of presenting the assets and liabilities of discontinued operations separately on the balance sheet. Under United States GAAP, the net discontinued operations are presented on the balance sheet.

Net earnings (loss) and earnings (loss) per common share according to Canadian and United States GAAP are as follows:

	1999	1998
Net earnings		
Canadian GAAP		
Earnings from continuing operations	$ (89,368)	$ 6,685
Earnings (loss) from discontinued operations after tax	136,065	(29,309)
Net earnings (loss)	$ 46,697	$ (22,624)
United States GAAP		
Earnings (loss) from continuing operations	$ (91,178)	$ 5,018
Earnings (loss) from discontinued operations after tax	135,783	(30,823)
Net earnings (loss)	$ 44,605	$ (25,805)
Earnings per common share		
Basic		
Canadian GAAP		
Earnings (loss) from continuing operations	$ (3.43)	$ 0.22
Earnings (loss) from discontinued operations after tax	5.19	(1.05)
Net earnings (loss)	$ 1.76	$ (0.83)
United States GAAP		
Earnings (loss) from continuing operations	$ (3.47)	$ 0.18
Earnings (loss) from discontinued operations after tax	5.17	(1.10)
Net earnings (loss)	$ 1.70	$ (0.92)
Fully diluted		
Canadian GAAP		
Earnings (loss) from continuing operations	$ (3.43)	$ 0.22
Earnings (loss) from discontinued operations after tax	4.78	(1.05)
Net earnings (loss)	$ 1.35	$ (0.83)
United States GAAP		
Earnings (loss) from continuing operations	$ (3.47)	$ 0.18
Earnings (loss) from discontinued operations after tax	5.03	(1.10)
Net earnings (loss)	$ 1.56	$ (0.92)

The following is a reconciliation of earnings (loss) from continuing operations and earnings (loss) from discontinued operations under Canadian GAAP to United States GAAP:

	1999	1998
Earnings (loss) from continuing operations – Canadian GAAP	**$ (89,368)**	$ 6,685
Increase (decrease) by:		
Market value adjustment on trading securities	**(743)**	(981)
Amortization	**(649)**	(640)
Deferred income taxes	**177**	344
Interest on equity financial instruments	**(595)**	(390)
Earnings (loss) from continuing operations – United States GAAP	**$ (91,178)**	$ 5,018
Earnings (loss) from discontinued operations after tax – Canadian GAAP	**$ 136,065**	$ (29,309)
Deferred income taxes	**(282)**	(1,514)
Earnings (loss) from discontinued operations after tax – United States GAAP	**$ 135,783**	$ (30,823)

The Company has presented the accounting for employee stock option plans under United States GAAP using the "intrinsic value based method."

The "fair value based method" of accounting for employee stock option plans affects net earnings (loss) and earnings (loss) per share under United States GAAP in the following manner:

	1999	1998
Earnings (loss) from continuing operations	**$ (94,904)**	$ 2,170
Earnings (loss) from discontinued operations after tax	**135,783**	(30,823)
Net earnings (loss)	**$ 40,879**	$ (28,653)
Earnings per common share		
Basic		
Earnings (loss) from continuing operations	**$ (3.61)**	$ 0.08
Earnings (loss) from discontinued operations after tax	**5.17**	(1.10)
Net earnings (loss)	**$ 1.56**	$ (1.02)
Fully diluted		
Earnings (loss) from continuing operations	**$ (3.61)**	$ 0.08
Earnings (loss) from discontinued operations after tax	**5.05**	(1.10)
Net earnings (loss)	**$ 1.44**	$ (1.02)

The following is a restatement of major balance sheet categories to reflect application of United States GAAP:

	1999	1998
ASSETS		
Current		
Cash and cash equivalents	$ 19,788	$ 15,998
Short term investments	73,589	4,885
Deferred income taxes	1,948	704
Discontinued operations	2,388	137,574
Other	26,003	13,432
	123,716	172,593
Mortgages and other advances	1,671	3,108
Equity in Impower, Inc.	9,735	–
Portfolio investments	12,406	–
Long term care facilities	15,805	17,369
Product acquisition costs	99,721	108,362
Other	15,518	14,741
	$278,572	$316,173
LIABILITIES		
Current liabilities	$ 28,416	$102,989
Other long term debt	90,000	90,000
Deferred income taxes	15,209	697
Minority interest	4,679	984
Other	22,248	21,573
	160,552	216,243
SHAREHOLDERS' EQUITY		
Capital stock	109,185	118,736
Accumulated deficit	(558)	(18,806)
Accumulated comprehensive income	9,393	–
	118,020	99,930
	$ 278,572	$ 316,173

Accumulated comprehensive income for the Company includes the cumulative unrealized gains or losses on securities available-for-sale. The effect on the Company's results in the current year and on a cumulative basis is as follows:

	1999	1998
Unrealized gain on investments available-for-sale	$ 9,393	$ –
Less: related deferred income taxes	–	–
Current year and accumulated comprehensive income	$ 9,393	$ –

(In 000s of US$ except per share figures) Years ended December 31

	1999	1998	1997	1996	1995	1994
ASSETS						
Cash and short term investments	**$ 91,728**	$ 18,654	$ 11,431	$ 27,254	$ 19,668	$ 8,716
Mortgages, other advances and receivables	**22,686**	11,693	10,330	17,056	12,981	28,567
Inventory	**7,419**	4,215		–		–
Other assets	**17,628**	16,654	13,783	13,211	10,354	15,040
Portfolio investments	**3,013**	–		–	–	–
Equity in Impower, Inc.	**9,735**	–	–	–		–
Product acquisition costs	**99,721**	108,362	–		–	–
Long term care facilities	**24,674**	25,497	26,376	27,241	28,025	41,524
Discontinued assets	**2,388**	310,390	331,922	218,915	66,020	120,835
Total	**$278,992**	$495,465	$393,842	$303,677	$137,048	$214,682
LIABILITIES AND SHAREHOLDERS' EQUITY						
Bank indebtedness	**$ –**	$ 76,500	$ 1,000	$ –	$ –	$ –
Other liabilities	**27,078**	19,953	8,729	8,489	7,769	8,302
Deferred revenue	**2,918**	3,975	5,678	7,384	9,102	10,867
Discontinued liabilities	**–**	167,249	167,420	97,629	–	35,064
Long term debt	**60,668**	65,003	23,886	28,847	28,998	86,039
Debentures	**44,659**	44,659	44,659	44,659	-	–
Deferred income taxes	**16,646**	843	707	324	(2,019)	(8,927)
Minority interest	**4,679**	984	599	331		–
	156,648	379,166	252,678	187,663	43,850	131,345
Shareholders' equity	**122,344**	116,299	141,164	116,014	93,198	83,337
Total	**$278,992**	$495,465	$393,842	$303,677	$137,048	$214,682
REVENUES	**$ 75,701**	$ 53,543	$ 55,876	$ 43,330	$ 57,361	$188,917
EARNINGS						
From operating businesses						
Pharmaceutical products	**$ 15,614**	$ 1,307	$ –	$ –	$ –	$ –
e-Commerce	**40**	–	-	–		
Clinical laboratory	**–**	466	1,083	877	–	–
Long term care	**681**	1,212	875	889	145	2,768
Realization of value in operating businesses	**1,929**	2,232	2,341	(3,542)	6,648	7,036
Interest and other income	**5,803**	7,908	7,205	3,807	4,134	6,444
Earnings before undernoted expenses	**24,067**	13,125	11,504	2,031	10,927	16,248
Writedown of investments	**148,456**	–	–	–	–	–
Corporate	**3,893**	3,008	6,068	3,691	1,511	539
Interest	**8,962**	3,042	3,186	4,090	3,394	5,026
Amortization	**7,204**	1,372	993	1,305	1,681	1,963
Earnings (loss) before income taxes and minority interest	**(144,448)**	5,703	1,257	(7,055)	4,341	8,720
Income taxes (recovery)	**(54,001)**	(871)	(289)	(1,457)	2,986	3,082
Minority interest	**(1,079)**	(111)	266	232	-	–
Earnings (loss) from continuing operations	**(89,368)**	6,685	1,280	(5,830)	1,355	5,638
Earnings from discontinued pharmacy services operations after tax	**150,594**	3,793	23,655	17,183		–
Earnings (loss) from discontinued home health care operations after tax	**(14,529)**	(33,102)	(7,812)	17,132	18,048	1,211
Net earnings (loss)	**$ 46,697**	$ (22,624)	$ 17,123	$ 28,485	$ 19,403	$ 6,849

EARNINGS (LOSS) PER COMMON SHARE	1999	1998	1997	1996	1995	1994
Basic	**$ 1.76**	$ (0.83)	$ 0.61	$ 1.12	$ 0.77	$ 0.21
Fully diluted	**$ 1.35**	$ (0.83)	$ 0.61	$ 1.04	$ 0.73	$ 0.21

Directors

Norman Hill
President, Norman Hill Realty Inc.

Morris Perlis
President & Managing Director,
Counsel Corporation;
Chief Executive Officer,
FARO Pharmaceuticals, Inc.

Philip Reichmann
Chief Executive Officer,
O&Y Properties Corporation

Allan Silber
Chairman & Chief Executive Officer,
Counsel Corporation;
Chairman, FARO Pharmaceuticals, Inc.

Edward Sonshine, Q.C.
President & Chief Executive Officer,
RioCan REIT

Gerald Turner
President Emeritus, Mount Sinai Hospital

Edward Waitzer
Partner, Stikeman, Elliott

Officers

Allan Silber
Chairman & Chief Executive Officer

Morris Perlis
President & Managing Director

Douglas Knight
Managing Director

Samuel Shimer
Managing Director

Susan Feldman
Senior Vice President

James Sas
Senior Vice President

Stephen Weintraub
Senior Vice President & Secretary

Renée Grossman
Vice President

Neville Rozowsky
Vice President & Controller

Howard Wortzman
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Chartered Accountants

Transfer Agents & Registrars
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Tel: (416) 981-9500

The Bank of Nova Scotia Trust Company
of New York
Tel: (212) 225-5438

Capital Stock & Convertible Debentures
At December 31, 1999, there were 25,533,000 common shares and $50,000,000 of convertible debentures outstanding.

Stock & Debenture Listings
Counsel Corporation's common shares are listed on The Toronto Stock Exchange under the symbol CXS and on The NASDAQ Stock Market under the symbol CXSN. Its convertible debentures are listed on The Toronto Stock Exchange under the symbol CXS.DB.U.

Shareholder & Investor Contact
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Annual Meeting
Counsel Corporation's Annual Meeting of Shareholders will be held on June 13, 2000 at 4:00 p.m. in the TSE Conference Centre of The Toronto Stock Exchange, The Exchange Tower, 130 King Street West, Toronto, Ontario. All shareholders are invited and encouraged to attend.

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